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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 000008

SIPDIS

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TAGS: [EFIN](#) [EINV](#) [ECON](#) [KU](#)

SUBJECT: GLOBAL INVESTMENT HOUSE SEEKS TO RESTRUCTURE DEBT

REF: A. 08 KUWAIT 1183

[1](#)B. 08 KUWAIT 1177

[1](#)C. 08 KUWAIT 1155

Classified By: Econcouns Oliver John for reasons 1.4 (b & d).

[1](#)1. (U) This contains business proprietary information.

[1](#)2. (C) Summary: Global Investment House defaulted on a \$200 million payment for a syndicated loan on December 15 and sought a 90 day standstill on payments to approximately 30 international and Kuwaiti banks to develop a restructuring plan. Most of the creditor banks appear likely to accept the standstill by the deadline of January 5. According to the bankers advising Global, almost all of its \$3 billion in debt comes due in 2009. Global is the first Kuwaiti investment company to default on a payment, but is not the only investment company facing liquidity problems. Unlike the bailout of Gulf Bank, however, the GoK does not appear to be rushing forward to provide guarantees to Global. End summary.

Global defaults on \$200 million payment  
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[1](#)3. (SBU) On December 15, Kuwait's Global Investment House failed to make a USD 200 million payment for a syndicated loan arranged by the German bank WestLB. Global appointed Commercial Bank of Kuwait (CBK) as its domestic advisor and HSBC as its international advisor and sought a 90 day standstill agreement from around 30 local and international banks to develop a repayment plan. The deadline for a decision on the standstill is January 5, and ) informally ) most creditor banks appear willing to grant it.

Almost three billion owed  
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[1](#)4. (SBU) According to Global's advisors, the company owes around \$2.8 billion, of which \$2.2 billion is owed to international banks. Around \$2 billion is due by June 2009. The creditor banks set up a steering committee to manage negotiations with Global. There are four international banks on the steering committee: Standard Bank of South Africa (London), WestLB (which is lead arranger on three syndicated loans, Standard Chartered Bank, and Abu Dhabi Commercial Bank (which is the largest region lender at \$300 million). The two local banks are Burgan Bank and Kuwait Finance House. CBK Capital is serving as the local advisor for Global, because CBK is tied with Gulf Bank as the local bank with the most exposure to Global. With the current financial crisis, Global has been unable to refinance its loans at rates it has been willing to pay. According to several bankers, other Kuwaiti investment companies (specifically Investment Dar and Aayan Leasing and Investment Company) are facing similar financing constraints and are selling assets to make their

payments. (Note: Ref A further discusses some of the problems facing the investment companies at a macro level. End note.)

#### Need to restructure and recapitalize

15. (C) The 90-day standstill will allow Global to develop a rescheduling plan, which the banks would then need to approve. Given current market tightness, neither CBK nor HSBC believe that Global will be able to raise the funds through new debt issuances, but would need to look at ways to raise new capital. They argue, however, that everyone would be worse off absent a rescheduling, since the market value of Global's assets has declined sharply. As of the end of September, Global had about \$10 billion in assets and around \$3 billion in debt. HSBC estimates the current market value of its assets at around \$4-5 billion.

#### Where is the GoK?

16. (C) Although it is possible that the GoK will step in with a bailout, none of the participants is counting on government aid. As one banker noted, the first question the international lenders asked when he approached them about a rescheduling was "where is the Central Bank?" To which he replied, "about 200 meters from my office." They argued that Central Bank was focused on supporting the commercial banking system, but appeared less willing to step in for the investment companies. It has urged commercial banks to support the investment companies, but has offered no

KUWAIT 00000008 002 OF 003

guarantees. Commercial bankers have been reluctant to increase their exposure absent some kind of guarantee.

17. (C) Although there have been press reports of GoK plans to support the stock market and the investment companies, there appears to be a large gap between reports and reality. Although there was an announced Kuwait Investment Authority (KIA) stock market fund, KIA has reportedly only recently invested in the market (and that tentatively). The Director General of the Kuwait Stock Exchange, a member of Kuwait's financial crisis committee, said that the KIA fund was established to allow KIA to invest selectively in worthwhile companies and not to bail out the stock market. In any case, he noted, with the Kuwaiti parliament's tendency to second guess investment decisions, KIA bureaucrats would be reluctant to decide on "which stock to buy and at what price." The GoK's actions, he added, were designed to ensure the liquidity and solvency of the financial system, which they were doing. He added that the stock market crisis was being overblown, since only 38 percent of Kuwaitis invest in the Kuwait stock exchange, and that around 90 percent of them are small investors. Most Kuwaitis, he noted, rely on government paychecks and only invest in initial public offerings, because they are discounted and offer quick "guaranteed returns." He stressed that the fall in the price of oil and in the price of KIA's overseas investments was of a much bigger systemic concern. Other market participants expressed frustration with the GoK's lack of transparency with regard to market stabilization. Some noted that KIA had reportedly bought stocks in four major companies, Kuwait Finance House, Zain, National Bank of Kuwait, and National Industries Group (all blue chips), but then had frozen its investments when other government investors did not follow suit.

#### Comment

18. (C) Global is the second Kuwaiti financial institution to face very public financial problems at least partially due to the global financial turmoil. So far, at least, the GoK's response appears to be different. The Central Bank stepped

in quickly to arrange a bailout of Gulf Bank, but has not played an active role in the efforts to reschedule Global's debt or in supporting the investment companies more generally. Global's advisors, however, are keeping the Central Bank apprised of their actions. If Global executives expected a bailout, the timing was not propitious. The GoK was shut for the Eid Al-Adha holiday from December 5 through the 13th and the government has been in a caretaker status since the Amir officially accepted the cabinet's resignation on December 14. National Assembly sniping at any "misuse of public funds," likely also hinders any action that might seem like "throwing money at the problem," especially when Kuwait's two main sources of foreign income (oil and KIA investments) are both effected by the global crisis.

#### Chronology of Events

##### 19. (C) Begin chronology.

-- On December 4, Global made a \$200 million payment to WestLB. CBK helped Global sell a 15% stake in the Bank of Bahrain and Kuwait (BBK) to the Kuwait Investment Authority, reducing Global's stake in BBK to just over 4% to make the payment.

-- Between December 4 and 14, CBK attempted to arrange a one billion dollar syndicated loan for Global with Kuwaiti banks to pay Global's obligations through first quarter 2009. According to CBK, Kuwaiti banks were unwilling to increase their exposure to Global to fund payments to foreign banks.

-- On December 14, CBK told Global that it would be impossible to arrange for a \$200 million repayment without stripping the company of all of its operational assets. It advised Global to invite its creditors to a meeting on December 21 to seek a rescheduling.

-- On December 15 Global missed its \$200 million payment to WestLB.

-- On about December 17, Global asked HSBC (which had arranged its global depository receipt issue) to become its lead advisor for dealing with international banks.

KUWAIT 00000008 003 OF 003

-- On December 21, Global met with around 30 bank creditors to request a 90 day standstill on payments, while Global developed a rescheduling proposal. The deadline to agree to the standstill is January 5.

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